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IMF REVIEW: What lies ahead in the global debt scene? Read the latest on securitization, debt swaps, and the impact of new bank provisions for special reserves. Overview starts on **Page 11.**

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Quote

This case is going to go to the Supreme Court.

Michael Bradfield, general counsel for the Fed, on a suit challenging the Fed's approval of new securities underwriting powers for nine banking firms [Page 1]

Unquote

Proxmire Views Banks in a New Light

Underwriting Risks Don't Loom as Large

By ROBERT M. GARSSON
Washington Bureau

WASHINGTON — Throughout his 30 years in the Senate, William Proxmire has staunchly believed that commercial banks should be barred from underwriting corporate equities and long-term corporate debt.

Now, as he nears retirement, the Senate Banking Committee chairman is suddenly questioning the views he has held for a lifetime.

In an interview with the *American Banker*, Mr. Proxmire, D-Wis., said it now appears to him that underwriting corporate equities may be far less risky than the traditional business of making commercial loans.

Underwriting, Mr. Proxmire said, places a firm at risk for less than a day.

"That's nothing like the risk of a loan that lasts for years and years," he said, acknowledging that he has now accepted the argument that banks have advanced, without success, for years on Capitol Hill.

That view, Mr. Proxmire added, argues strongly in favor of permitting banks to underwrite corporate securities, long-term corporate debt, and anything else that can be packaged and sold as a security.

Still, Mr. Proxmire, who turns 72 on Nov. 11, said he has not come to a final conclusion about what kind of bill he plans this fall to urge his committee to accept.

Mr. Proxmire's staff is working on the outline of a bill that would repeal sections 20 and 32 of the Glass-Steagall Act, the two provisions of law that prohibit affiliations between banks and securities firms, and their boards of directors.

William Proxmire

'A very large portion of mortgages and commercial loans are not made by banks anymore.'

Proxmire: Page 43 ➳

Insurance Company to Issue Visa Card In Joint Venture with Georgia Bank

By DAVID LaGESSE
Southwest Bureau

DALLAS — A.L. Williams Corp., an Atlanta insurance company, will begin issuing Visa cards in a joint venture with Fidelity National Bank, a small bank in Decatur, Ga.

A.L. Williams' sales force, which is largely part-time, will market the card to current and prospective policyholders, said Wayne L. King, executive vice president of the company.

The insurance company also plans to market mortgages through its agents, though details remain sketchy. The home mortgages are expected to be available by the first quarter of 1988, said Barbara King, an A.L. Williams spokeswoman. Ms. King is not related to Mr. King.

Primerica, the financial services conglomerate that grew out of the former American Can Co., owns about 20% of A.L. Williams. Primerica may participate in the home loan program through its mortgage banking subsidiary.

With about 150,000 representatives in the field, A.L. Williams expects to attract 500,000 Visa accounts within a year of the program's launch, Mr. King said. Applications have been printed and the first cards should be issued in November.

The predicted volume could transform Fidelity, which has about $140 million in assets, into a major credit card bank. The bank already has beefed up its staff for the expected wave of applications, though the bank

Atlanta: Page 42 ➳

Key FDIC Link To Continental Expires Today

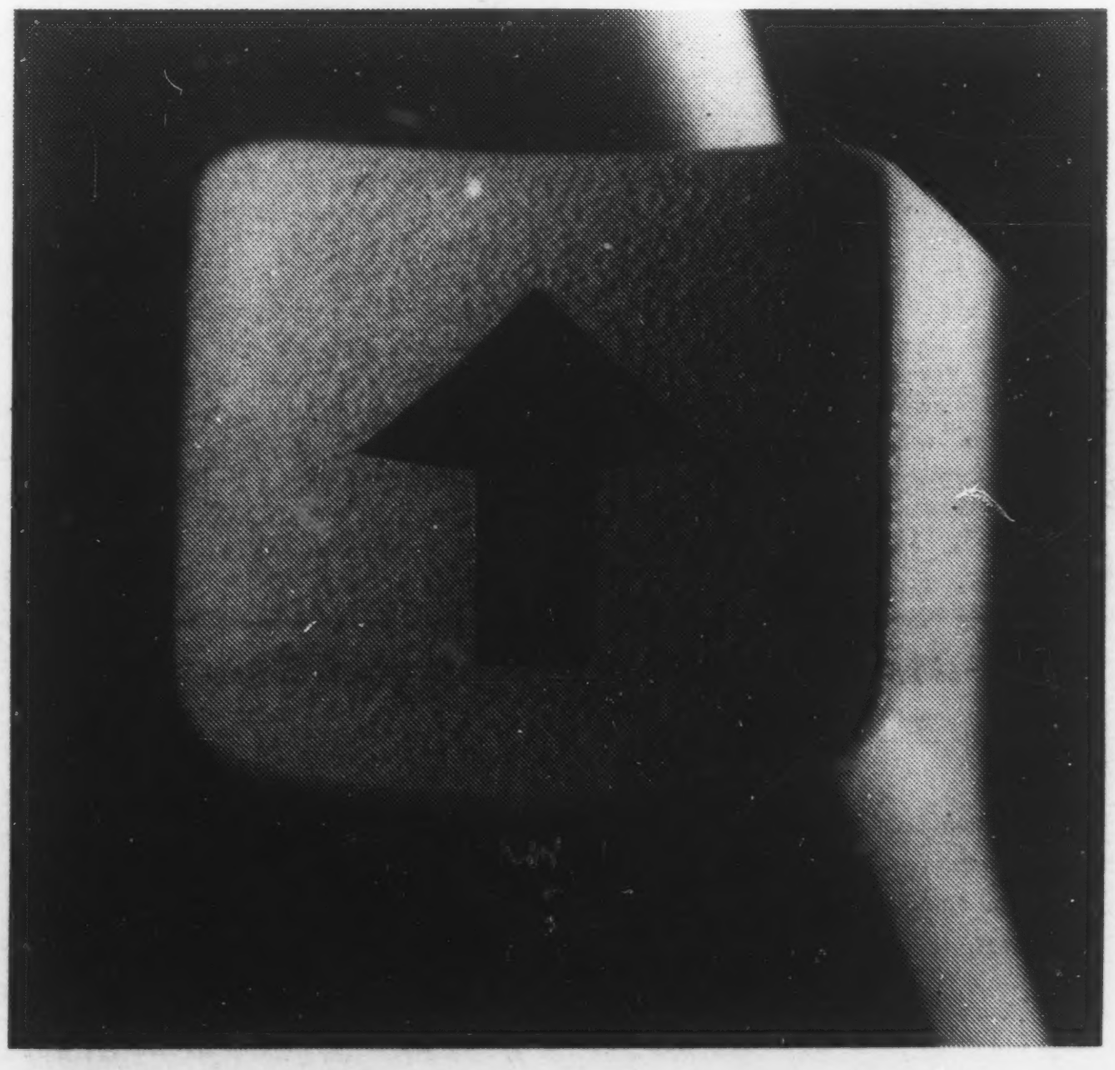
By LISABETH WEINER
Midwest Bureau

CHICAGO — Continental Illinois Corp. today celebrates another milestone on its slow but steady road to recovery.

After today, the company's principal banking subsidiary, Continental Illinois National Bank and Trust Company of Chicago, no longer will be able to transfer poor-quality loans to the Federal Deposit Insurance Corp. under terms of the government's 1984 bailout of the bank.

With the deadline passed, Continental will be left with a much cleaner loan portfolio and renewed hope that some-

Continental: Page 43 ➳



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FEATURE SECTION
American Banker

PULL OUT AND SAVE

International Monetary Fund Review

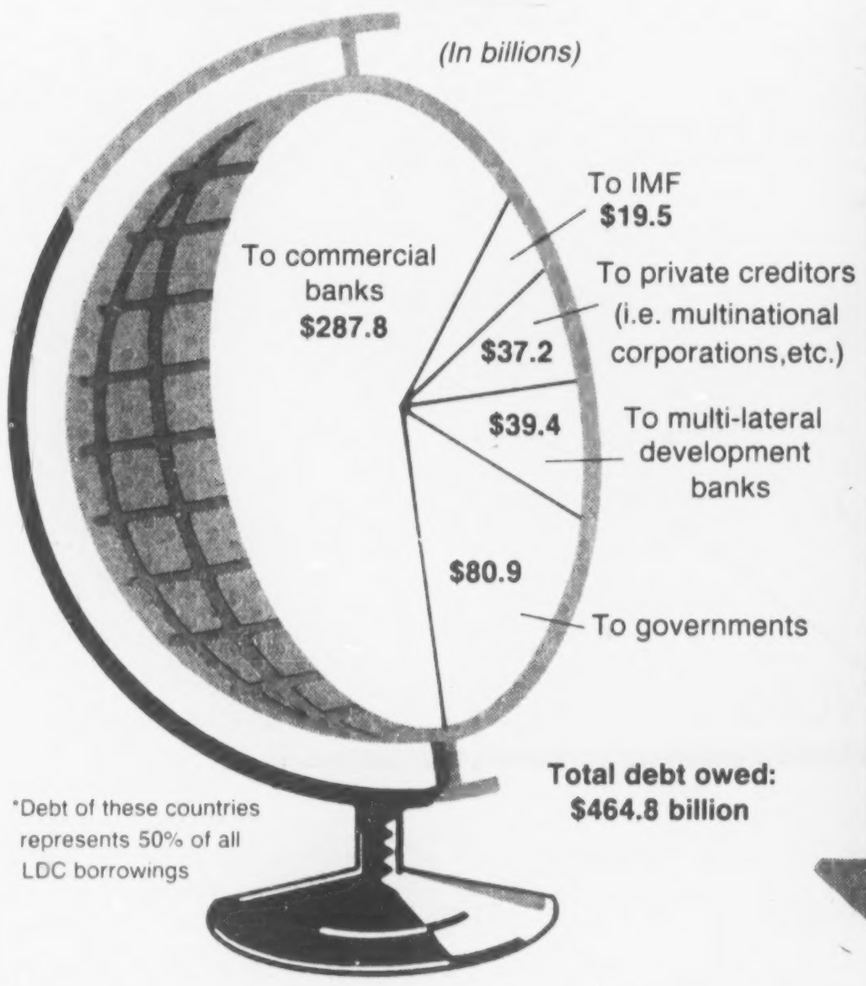
Debt Ball Is In Private Sector's Court

Crisis provides fertile ground for new solutions.

By Maxwell Glen

LDC Debt

*Amounts owed by 15 countries participating in the Baker Plan**



What the Baker 15 countries owed

At end of 1986

	In billions
Argentina	$53.0
Bolivia	$4.5
Brazil	$109.2
Chile	$21.6
Columbia	$15.0
Ecuador	$9.0
Ivory Coast	$7.6
Mexico	$100.4
Morocco	$15.9
Nigeria	$25.2
Peru	$14.6
Phillipines	$28.3
Uruguay	$5.2
Venezuela	$34.1
Yugoslavia	$21.1

Source: Institute of International Finance Washington, D.C.

ONE CAN GAUGE THE STATUS OF the international debt imbroglio with two observations: Debt-for-nature swaps are hot. The "Baker plan" is not. Conservationists have been abuzz since the Bolivian government agreed in mid-July to protect more than three million acres of endangered tropical lowlands in exchange for a reduction of its foreign debt.

Some U.S. bankers and policymakers heralded the unprecedented arrangement, in which a U.S.-based nonprofit group bought $650,000 of Bolivia's loans at a heavy discount in the secondary market, as one of several potentially fruitful techniques for reducing the debt burdens of lesser developed countries (LDC).

By contrast, the Baker plan has run aground. Two years ago its progenitor, Treasury Secretary James A. Baker 3d, called for debtor countries to reform their

OVERVIEW

economic policies in exchange for increased lending by multilateral agencies and commercial banks.

By some estimations, the biggest blow to the Baker initiative came last May in the form of a decision by Citicorp chairman John S. Reed to set aside an additional $3 billion in reserves for anticipated losses in its foreign portfolio. Dozens of U.S. and foreign institutions have since followed suit, fueling long-standing fears that a writedown of its existing loans would almost terminally undermine a country's pursuit of new money from private sources.

Taken together, the debt-for-nature swap and Mr. Reed's bold and widely imitated maneuver illustrate the innovative extent to which debtors and creditors are trying to lick a crisis precipitated by Mexico's near-default five years ago.

They also underscore how the commercial and private sector have decided to take policy leadership into its own hands.

When the World Bank and International Monetary Fund convene at the annual joint meeting in Washington, the finance ministers and central bankers in attendance are as unlikely to reclaim international leadership of the issue as they are to resolve the debt problem overall. Most observers expect this year's gathering, like last year's, to end in a stalemate on key issues.

But some analysts contend that the debt crisis and the leadership void are linked inextricably. In short, there is a wide variety of partial or wholesale solutions to the debt crisis. What is lacking is the inclination in either the public or private spheres to pay for them.

It is not for want of incentive. According to the Institute of International Finance, a Washington-based research group underwritten primarily by international banks, the Baker plan's list of 15 key debtor countries owed $465 billion to foreign lenders at the end of 1986. The Baker plan countries, ten of which are in Latin America, are said to account for about half of all LDC external debt.

Baker country debts to commercial banks, at the end of last year, accounted for 61.9% of the total, while those to the IMF and multilateral development banks totaled 4.2% and 8.5%, respectively. About 17.4% was owed to official bilateral creditors such as the Export-Import Bank of the U.S. Other private suppliers accounted for 8%.

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Maxwell Glen is a contributing editor for the National Journal in Washington, D.C.

Global Debt

Possible Defaults Continue to Shape Policy

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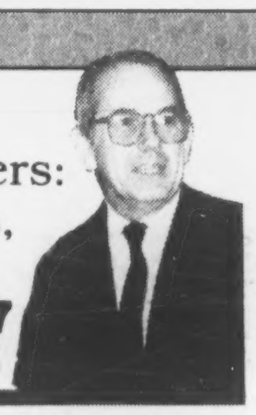
Camdessus

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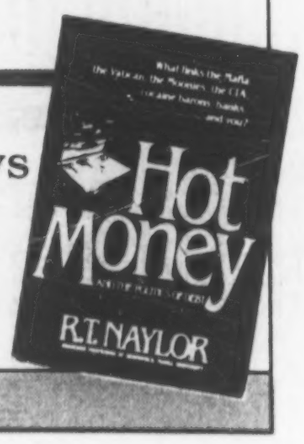

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According to the Federal Reserve Board, the reported exposure of U.S.-based commercial banks in the Baker countries totaled $86.2 billion. This number reflects in part decisions of some institutions to write down on their own books loans that they are asking debtors to service at face value.

Ironically, IMF appears to be thriving under short-term, standby arrangements orchestrated during the early stages of the crisis. In June, continuing the 1986 trend, IMF actually received — mostly in repayments and service charges — $200 million more than it disbursed.

But commercial institutions and development banks have enjoyed no such luck. Most of the Baker plan's Latin American countries, where the commercial banks are mainly involved, are either way behind in their interest payments or not servicing their debt at all. Brazil, the developing world's biggest debtor, has not paid interest on its $67 billion in obligations to banks since February.

Servicing problems are inherent in the disparity between foreign debt and exports, some experts contend. In some cases, the ratio of total outstanding debt to annual exports ranges as high as 500%, according to Morgan Guaranty Trust Co. The United Nations Economic Commission for Latin America and the Caribbean reports that the ratio in 1986 of interest payments to exports was 37% for oil-producing members of the group and nearly 34% for non-oil producers.

> ***"There is a power vacuum in need of being filled. If the World Bank and IMF wanted to, they could step in with an affirmative, creative posture."***

William R. Cline, a senior fellow at the Institute for International Economics in Washington, argues that increased prices for commodities and an average growth rate in the industrial countries of as low as 2.5% per year may be enough to expand LDC export earnings, thereby forestalling the need for drastic measures. Yet some analysts reject Mr. Cline's optimism, adding that commodity price inflation, particularly in the energy sector, could prove a catalyst for another global recession.

Others contend that because of the inherent instability of commodity-based economies, the solution to the debt crisis simply lies in domestic policies that promote balanced industrial growth. But with only some exceptions, the ways in which many LDC governments have managed their economies to date have left foreign lenders less than optimistic about the future.

Motivating Forces

Crisis has been an impetus for technical creativity, of which the debt-for-nature swap is just one example. A more widely employed technique involves the exchange of debt-for-equity investments in the debtor country.

The Group of Thirty, a research organization of top bankers and economists, recently estimated that the volume of debt-for-equity swaps since 1982 has surpassed $12 billion. Chile is said to have reduced its debt by more than 10% using the vehicle. In a move designed to promote debt-for-equity swaps, the Federal Reserve Board last month increased from 20% to 100% the share that banks could own of non-financial companies in 33 debtor countries.

Another innovation is the "exit bond," which permits a smaller creditor to receive lower-yielding securities issued by the debtor government in exchange for loans.

Then there is payment-in-kind, illustrated by the recent decision of First Interstate Bank of California to accept clothing and other manufactured products from Peru in return for retiring $24 million of that country's debt.

Meanwhile, investment bankers are said to be seriously considering high-interest rate securities, called "asset-backed bonds," which would be sold like junk bonds. Some lenders have already turned certain loans into securities but held them for their own accounts.

Most banks are reluctant to discount their loans to the extent desired by some financial engineers. This is one explanation for the recent failure of Brazilian finance minister Luiz Carlos Bresser Perier's aborted attempt to win U.S. approval for a radical plan to write down its debt and convert it to securities.

Such financial moves seem only a partial solution at best. For example, the inaugural debt-for-nature swap retired only a small slice of Bolivia's $4 billion in external obligations. Similarly, the enthusiasm for debt-for-equity swaps has been tempered by the limited number of potentially attractive investments.

There is also fear that, as the Group of Thirty recently asserted, swap arrangements could "complicate an already difficult rescheduling and adjustment process without providing overriding benefits for either debtors or creditors." Critics variously charge that through swaps, debtors run the risk of exacerbating inflation, inflaming nationalistic sentiment, and by flooding the secondary market with bad debt, further undermining their ability to raise funds in the future.

And though capital flight has been reversed in many of the major Baker countries, according to Morgan Guaranty Trust Co. spokespeople, new money is in big demand. Many experts point out that additional capital is essential to any resolution of the debt crisis. Dozens of countries are reportedly lining up for loans.

Second Chances

Mexico has received $7.7 billion in new financing from commercial banks and multilateral institutions under a loan package renegotiated last year. And last month, Argentina and its creditor banks signed a $34 billion rescheduling agreement that included about $2 billion in new loans and triggered $3.35 billion in additional financing from the IMF and World Bank.

But while lead negotiator Citicorp recruited more than 300 creditor banks worldwide to subscribe to the accord, skeptics contend that the enthusiasm for new lending is better reflected by the 10% decline from 1985

Continued on Page 14

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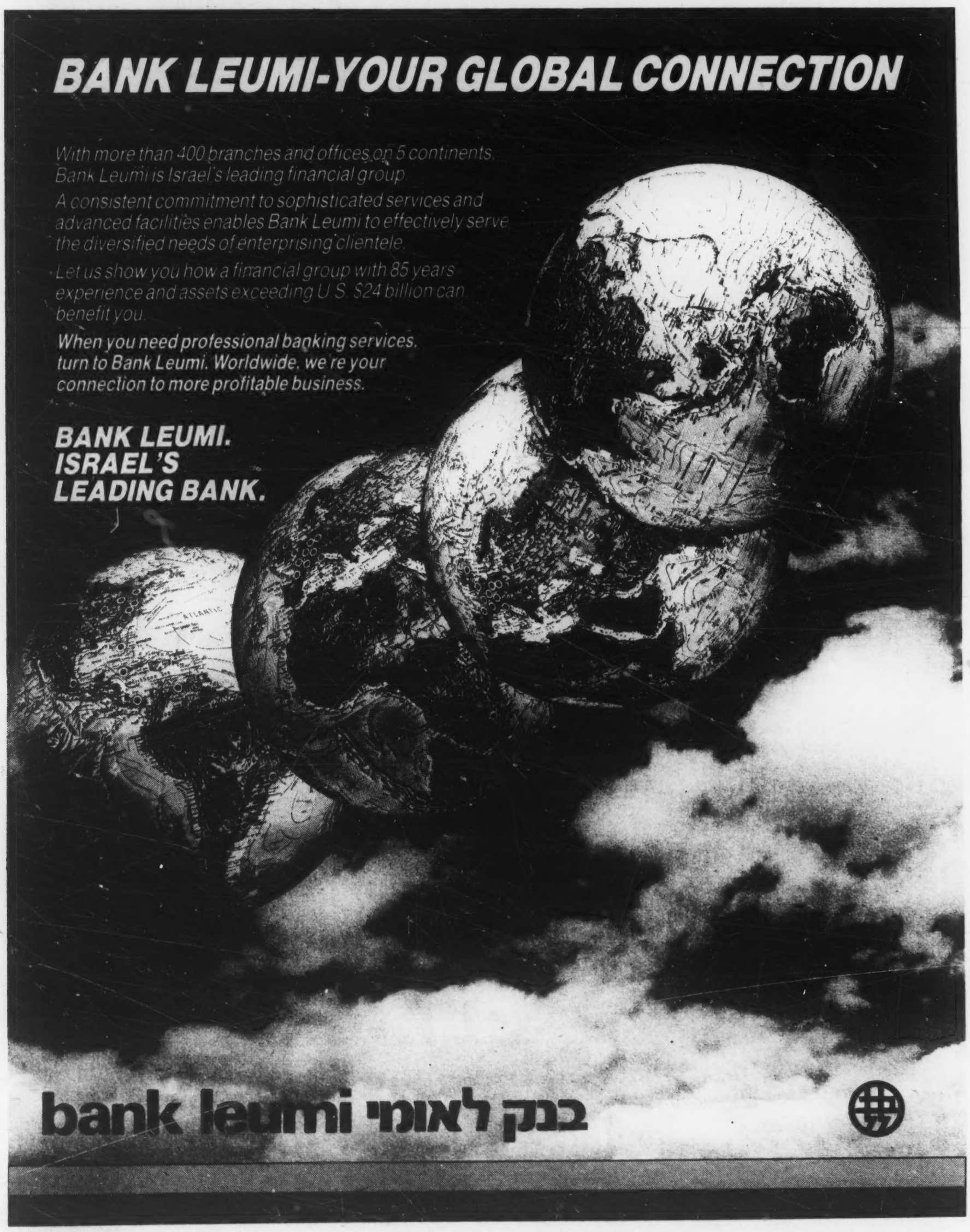

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IMF REVIEW

Continued from Page 12

to 1986 in LDC loans on the books of U.S.-based banks.

Sen. Bill Bradley (D-N.J.), chairman of the Senate's finance committee's international debt panel, argues that in the place of new lending, banks should provide interest rate relief and debt forgiveness on a case-by-case basis to countries that implement growth-oriented reforms.

Sen. Bradley also contends that, barring preliminary reforms, new lending is tantamount to throwing good money after bad. His advocacy of partial forgiveness and no new money has placed him at odds with Mr. Baker, who insists that while committing additional funds, the banks need not write down the value of their existing loans.

But both Mr. Baker and Sen. Bradley are at odds with commercial banks, which complain that under either plan, they are being asked to take the hit for the governments of the industrial countries.

Some experts believe that the recent wave of writedowns has cleared the way for an increasingly assertive role by the multilateral agencies and, in particular, Barber Conable, president of the World Bank, and IMF managing director Michel Camdessus.

"There is a power vacuum in need of being filled," says Richard Feinberg, vice president of the Overseas Development Council. "If the [World] Bank and [IM] Fund wanted to, they could step in with an affirmative, creative posture."

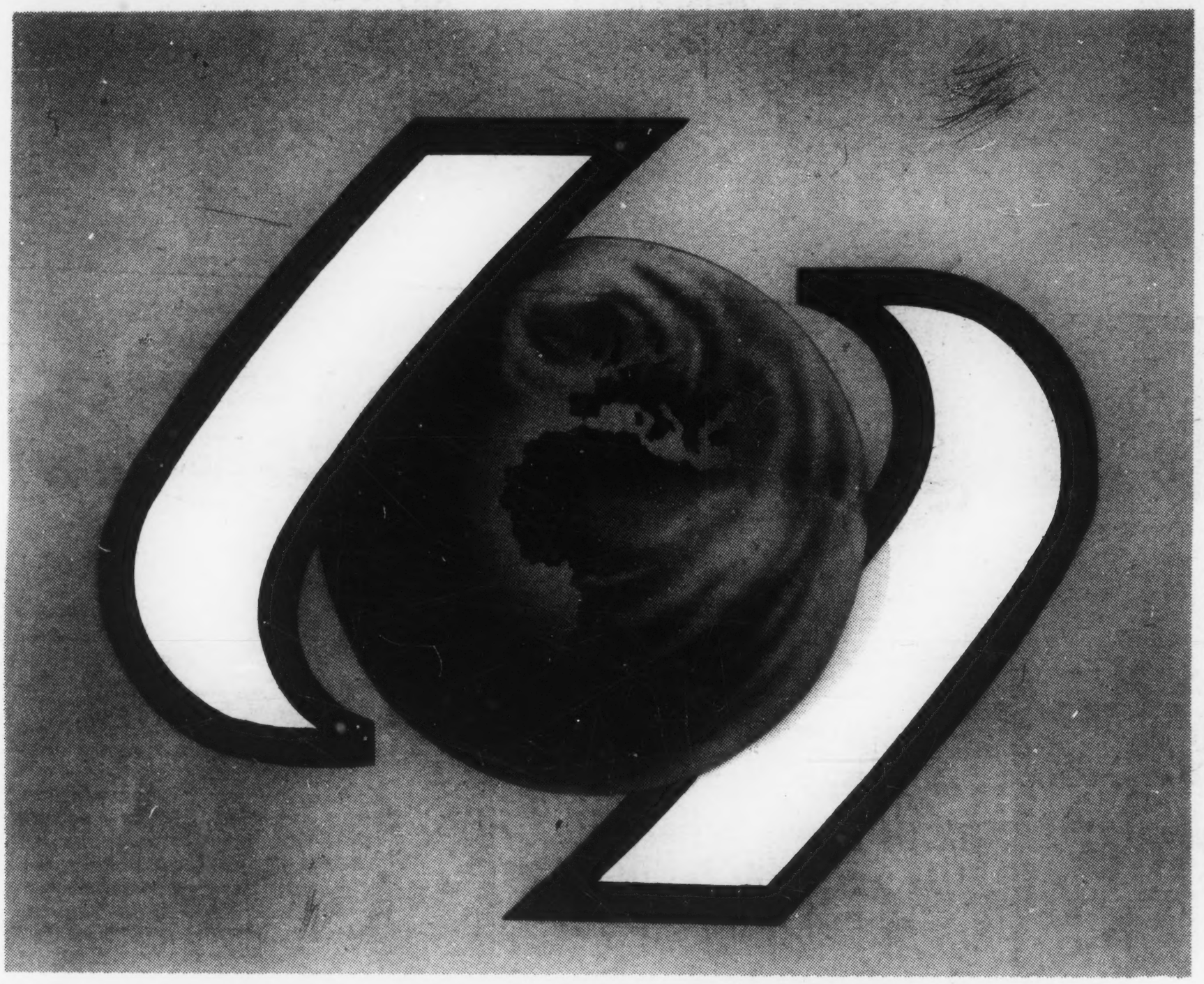
In fact, Mr. Camdessus won a verbal commitment at the Venice summit last June for an increase from $3 billion to $9 billion in funding for the fund's Structural Adjustment Facility, a short-term low-interest financing program targeted mainly at debtors in sub-Saharan Africa.

Yet IMF, originally established to redress short-term problems with current accounts and exchange rates, enjoys neither the mandate nor the funding to manage a global debt emergency of epic dimensions.

Meanwhile, although the World Bank and its multilateral brethren do enjoy a long-term perspective, they lack the funding and, some critics charge, the imaginative leadership needed to attract private sources back to the table.

Which all leads, some analysts say, to politics within and between each of the industrialized nations, principally Japan and the United States. While concerned about the debt-threat to their respective banking systems, each regards the other as its primary economic problem. And despite wide-eyed talk in the development community about Japan's surplus capital, neither government is anxious to lead a wholesale multilateral bailout.

Things could change for the better for debtors and creditors between now and January 1989, when President Reagan is scheduled to step down. But the experience to date has led few bankers and other observers to think that they will. ■



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